

STATE OF TENNESSEE

Office of the Attorney General



RECEIVED  
2005 JAN 27 PM 4:21  
T.R.A. DOCKET ROOM

**ANDY D. BENNETT**  
CHIEF DEPUTY ATTORNEY GENERAL

**LUCY HONEY HAYNES**  
ASSOCIATE CHIEF DEPUTY  
ATTORNEY GENERAL

**PAUL G. SUMMERS**  
ATTORNEY GENERAL AND REPORTER

MAILING ADDRESS  
P.O. BOX 20207  
NASHVILLE TN 37202

**MICHAEL E. MOORE**  
SOLICITOR GENERAL

CORDELL HULL AND JOHN SEVIER  
STATE OFFICE BUILDINGS

TELEPHONE 615-741-3491  
FACSIMILE 615-741-2009

Reply to:  
Consumer Advocate and Protection Division  
Post Office Box 20207  
Nashville, TN 37202

January 27, 2005

Honorable Pat Miller  
Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

**RE: In Re: Petition of Tennessee-American Water Company for Approval of  
Change in Rates and Charges**

**Docket No. 04-00288**

Dear Chairman Miller:

Enclosed is an original and thirteen copies of the Proposed Settlement Agreement between Tennessee-American and the Consumer Advocate. Copies are being sent to all parties of record. If you have any questions, kindly contact me at (615) 741-3533. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy C. Phillips".

Timothy C. Phillips  
Senior Counsel

Enclosure

cc: All Parties of Record

81195

IN RE: )  
)  
)  
PETITION OF TENNESSEE-AMERICAN ) DOCKET NO. 04-00288  
WATER COMPANY TO CHANGE AND )  
INCREASE CERTAIN RATES AND )  
CHARGES SO AS TO PERMIT IT TO EARN A )  
FAIR AND ADEQUATE RATE OF RETURN )  
ON ITS PROPERTY USED AND USEFUL IN )  
FURNISHING WATER SERVICE TO ITS )  
CUSTOMERS )

For the sole purpose of settling the case of Petition of Tennessee-American Water Company to Change and Increase Certain Rates and Charges So as to Permit It to Earn a Fair and Adequate Rate of Return on its Property Used and Useful in Furnishing Water Service to its Customers, TRA Docket No. 04-00288, the Office of Attorney General through the Consumer Advocate and Protection Division (“Attorney General”) and Tennessee-American Water Company (“Tennessee-American”) hereby agree and stipulate as follows in the above-styled case set for hearing on January 31, 2005:

1. The Attorney General and Tennessee-American stipulate and agree that Tennessee-American is entitled to earn a 7.76% return on investments with a 9.9% return on equity, as shown in attached Schedule 9.

2. The Attorney General and Tennessee-American further stipulate and agree that a 7.76% return on investment generates a revenue deficiency of \$297,005. The revenue deficiency is shown in attached Schedule 1.

3. The Attorney General and Tennessee-American further stipulate and agree that Tennessee-American shall withdraw its request for the “Low Income Tariff” as referenced and described in paragraph 13 of its Petition.

4. The Attorney General and Tennessee-American further stipulate and agree that Tennessee-American shall measure and report service metrics as summarized in attached Schedule 10.

5. The Attorney General and Tennessee-American further stipulate and agree that the increase in rates attributable to the revenue deficiency of \$297,005 shall be allocated to all classes of customers in an across-the-board percentage increase of 0.93% to the metered tariffs.

6. In light of the General Assembly’s enactment of Tenn. Code Ann. 65-5-101(d) (2004) prohibiting privately-owned water utilities from charging municipal governments for fire hydrant service, the Attorney General and Tennessee-American further stipulate and agree that public fire hydrant service charges of \$897,285 approved by the Tennessee Regulatory Authority (“TRA”) in TRA Docket No. 03-00118 to be allocated to municipal governments shall be allocated to all classes of customers exclusive of municipal governments in an across-the-board percentage increase of 2.90% to the metered tariffs.

7. In the event that the TRA does not accept the Proposed Settlement in whole or in part, the Attorney General and Tennessee-American are not bound by any position set forth herein.

TENNESSEE-AMERICAN WATER  
COMPANY

BY: *R. Dale Grimes*

R. Dale Grimes (BPR #6223)  
BASS, BERRY & SIMS PLC  
(615) 742-6200

BY: *J. Davidson French*  
J. Davidson French (BPR #15442)  
BASS, BERRY & SIMS PLC  
(615) 742-6200

CONSUMER ADVOCATE AND  
PROTECTION DIVISION OF THE  
OFFICE OF THE TENNESSEE  
ATTORNEY GENERAL

BY: *Timothy C. Phillips*

Timothy C. Phillips (BPR #12751)  
Senior Counsel  
(615) 741-3533

BY: *Joe Shirley*  
Joe Shirley (BPR #22287)  
Assistant Attorney General  
(615) 741-3549

Dated: January 27, 2005

## CERTIFICATE OF SERVICE

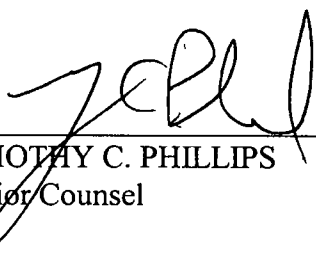
I hereby certify that a true and exact copy of the foregoing has been forwarded by facsimile and/or first-class mail, postage prepaid on January 27, 2005, to the following:

T.G. Pappas, Esq.  
R. Dale Grimes, Esq.  
J. Davidson French, Esq.  
Bass, Berry & Sims, PLC  
AmSouth Center  
315 Deaderick Street, Suite 2700  
Nashville, TN 37238-3001

Michael A. McMahan, Esq.  
Lawrence W. Kelly, Esq.  
Nelson, McMahan & Noblett  
801 Broad Street, Suite 400  
Chattanooga, TN 37402

Henry M. Walker, Esq.  
Boult, Cummings, Conners & Berry, PLC  
1600 Division Street, Suite 700  
Nashville, TN 37203

David C. Higney, Esq.  
Grant, Konvalinka & Harrison, P.C.  
633 Chestnut Street, 9th Floor  
Chattanooga, TN 37450



---

TIMOTHY C. PHILLIPS  
Senior Counsel

#81894

Tennessee-American Water  
Index to Schedules  
For the 12 Months Ending December 31, 2005

	<b><u>Schedule No.</u></b>
Revenue Deficiency	1
Comparative Rate Base	2
Income Statement at Current Rates	3
Income Statement at Proposed Rates	4
Operation & Maintenance Expenses	5
Taxes Other Than Income Taxes	6
Excise and Income Taxes	7
Revenue Conversion Factor	8
Cost of Capital	9
Service Metrics	10

Tennessee-American Water  
Revenue Deficiency  
For the 12 Months Ending December 31, 2005

Line No		CAPD		Company		Difference
1	Rate Base	87,611,390	A/	87,611,390	A/	-
2	Operating Income at Present Rates	6,616,813	B/	5,846,425	B/	770,388
3	Earned Rate of Return (Line 2/Line 1)	7.55%		6.67%		0.88%
4	Cost of Capital	7.76%	C/	7.997%	E/	-0.24%
5	Required Operating Income (Line 1*Line 4)	6,798,644		7,006,283		(207,639)
6	Operating Income Deficiency (Line 5-Line 2)	181,830		1,159,858		(978,027)
7	Gross Revenue Conversion Factor	1.633418	D/	1.69890763	E/	(0.065490)
8	Revenue Deficiency (Line 6*Line 7)	297,005		1,970,491		(1,673,486)

A/ Schedule 2

B/ Schedule 3

C/ Schedule 9

D/ Schedule 8

E/ Diskin REVISED Exhibit 1, Schedule 1

Tennessee-American Water  
Comparative Rate Base  
For the 12 Months Ending December 31, 2005

Line No.		CAPD	A/	Company	A/	Difference
1	Utility Plant in Service	160,157,718		160,157,718		-
2	Construction Work in Progress	801,659		801,659		-
3	Utility Plant Capital Lease	1,590,500		1,590,500		-
4	Limited-Term Utility Plant - Net	(3,270)		(3,270)		-
5	Working Capital	1,385,205		1,385,205		-
6	Def Maint.	5,641		5,641		-
7	Total Additions	163,937,453		163,937,453		-
8	Accumulated Depreciation	51,928,414		51,928,414		-
9	Accumulated Amort of Utility Capital Lease	742,234		742,234		-
10	Accumulated Deferred Income Taxes	13,486,419		13,486,419		-
11	Customer Advances for Construction	2,432,851		2,432,851		-
12	Contributions In Aid of Construction	7,765,092		7,765,092		-
13	Unamortized Investment Tax Credit	45,733		45,733		-
14	RWIP	(74,680)		(74,680)		-
15	Total Deductions	76,326,063		76,326,063		-
16	Rate Base	87,611,390		87,611,390		-

A/ Company Exhibit 1, Sch 2

Tennessee-American Water  
Income Statement at Current Rates  
For the 12 Months Ending December 31, 2005

Line No		CAPD		Company		Difference
1	Operating Revenues	33,057,417	A/	33,057,417	A/	-
2	Operations and Maintenance Expense	16,262,091	B/	16,709,359	B/	(447,268)
3	Depreciation and Amortization Expense	4,558,016	C/	4,558,016	C/	-
4	Taxes Other Than Income	3,314,870	D/	3,456,977	G/	(142,107)
5	State Excise Tax	170,901	E/	378,505	H/	(207,604)
6	Federal Income Tax	2,163,517	E/	2,136,926	H/	26,591
7	Total Operating Expense	26,469,395		27,239,783		(770,388)
8	AFUDC	28,791	F/	28,791	F/	-
9	Net Operating Income for Return	6,616,813		5,846,425		770,388

A/ Company Exhibit 2, Sch 2

B/ Schedule 5

C/ Company Exhibit 2, Sch. 1

D/ Schedule 6

E/ Schedule 7

F/ Company Exhibit 2, Sch 3

G/ Company Exhibit 2, Sch. 1, but does not tie to Company's supporting workpapers (See Sch 6)

H/ Company Exhibit 2, Sch 6

Tennessee-American Water  
Income Statement at Proposed Rates  
For the 12 Months Ending December 31, 2005

Line No		Current Rates	A/ B/	Adjustments	C/ Rates
1	Operating Revenues	32,522,732	B/	297,005	32,819,737
2	Forfeited Discount Revenues	534,685	B/	4,990	539,675
3	Total Revenues	33,057,417		301,995	33,359,412
4	Operations and Maintenance Expense	16,262,091		2,809	16,264,900
5	Depreciation and Amortization Expense	4,558,016			4,558,016
6	Taxes Other Than Income	3,314,870			3,314,870
7	State Excise Tax	170,901		19,447	190,348
8	Federal Income Tax	2,163,517		97,909	2,261,425
9	Total Operating Expense	26,469,395			26,589,559
10	AFUDC	28,791			28,791
11	Net Operating Income for Return	6,616,813			6,798,644

A/ Schedule 3

B/ Company Exhibit 2, Sch 2

C/ Schedule 1, Line 8 x appropriate factor from Schedule 8

Tennessee-American Water  
Operation & Maintenance Expenses  
For the 12 Months Ending December 31, 2005

Line No		CAPD	A/	Company	B/	Difference
1	Salaries and Wages	4,082,080		4,383,883		(301,803)
2	Purchased Water	26,148		15,330		10,818
3	Fuel and Power	1,650,433		1,755,680		(105,247)
4	Chemicals	861,861		861,861		-
5	Waste Disposal	118,201		133,438		(15,237)
6	Management Fees	3,219,932		3,062,940		156,992
7	Group Insurance	1,339,248		1,386,004		(46,756)
8	Pensions	829,731		892,790		(63,059)
9	Regulatory Expense	58,000		58,000		-
10	Insurance Other Than Group	673,430		657,000		16,430
11	Customer Accounting	570,625		572,893		(2,268)
12	Uncollectible Expense	289,530		289,530		-
13	Rents	37,888		38,286		(398)
14	General Office Expense	208,057		193,122		14,935
15	Miscellaneous Expense	1,715,487		1,661,970		53,517
16	Other Maintenance Expense	581,440		746,632		(165,192)
17	Total O&M Expense	<u>16,262,091</u>		<u>16,709,359</u>		<u>(447,268)</u>

A/ CAPD Workpapers

B/ Company Exhibit 2, Sch 3

Tennessee-American Water  
Taxes Other Than Income Taxes  
For the 12 Months Ending December 31, 2005

Line No		CAPD		Company	D/	Difference
1	Other General Taxes	900		900		-
2	Gross Receipts Tax	356,815	A/	566,595		(209,780)
3	TRA Inspection Fee	59,413		59,413		-
4	Property Taxes	2,300,000	B/	2,503,629		(203,629)
5	Franchise Tax	259,938		259,938		-
6	FICA Taxes	332,999	C/	332,999		-
7	Unemployment Taxes	4,805	C/	4,805		-
8	Total Taxes Other Than Income Taxes	<u>3,314,870</u>		<u>3,728,279</u>		<u>(413,409)</u>

A/ CAPD Workpaper T-OTAX2

B/ CAPD Workpaper T-OTAX1

C/ CAPD Workpaper T-OTAX3

D/ Company Exhibit 2, Sch. 5 adjusted by Company Response to CAPD Data Request #17

Tennessee-American Water  
Excise and Income Taxes  
For the 12 Months Ending December 31, 2005

Line No		Attrition Amount A/	
1	Operating Revenues	33,057,417	B/
2	Salaries and Wages	4,082,080	
3	Purchased Water	26,148	
4	Fuel and Power	1,650,433	
5	Chemicals	861,861	
6	Waste Disposal	118,201	
7	Service Company Charges	3,219,932	
8	Group Insurance	1,339,248	
9	Pensions	829,731	
10	Regulatory Expense	58,000	
11	Insurance Other Than Group	673,430	
12	Customer Accounting	570,625	
13	Uncollectible Expense	289,530	
14	Rents	37,888	
15	General Office Expense	208,057	
16	Miscellaneous Expense	1,715,487	
17	Other Maintenance Expense	581,440	
18	Depreciation and Amortization Expense	4,558,016	
19	Taxes Other Than Income	3,314,870	
20	NOI Before Excise and Income Taxes	8,922,440	
21	AFUDC	28,791	
22	Interest Expense	(3,200,900)	C/
23	Pre-tax Book Income	5,750,331	
24	Schedule M Adjustments	(4,479,690)	D/
25	Excise Taxable Income	1,270,641	
26	Excise Tax Rate	6 50%	
27	Excise Tax Payable	82,592	
28	Excise Tax Deferred	88,309	
29	Excise Tax Expense	170,901	
30	Pre-tax Book Income	5,750,331	
31	Preferred Dividend Credit	(28,824)	E/
32	Excise Tax	(170,901)	
33	Schedule M Adjustments	(4,479,690)	D/
34	FIT Taxable Income	1,070,917	
35	FIT Rate	35 00%	
36	Federal Income Tax Payable	374,821	
37	ITC Amortization	(76,368)	
38	Federal Income Tax Deferred	1,865,064	
39	Federal Income Tax Expense	2,163,517	

A/ Schedule 5

B/ Schedule 4

C/ Schedule 1, line 1 \* Weighted Cost of Debt per Schedule 9

D/ This is the net difference of the Permanent Differences of \$2,950 and the Temporary Differences of \$4,482,640 shown on E/

E/ Exhibit No. 2, Schedule 6, Page 2 of 2

Tennessee-American Water  
Revenue Conversion Factor  
For the 12 Months Ending December 31, 2005

<u>Line No</u>		<u>Amount</u>	<u>Balance</u>
1	Operating Revenues		1 000000
2	Add. Forfeited Discounts	0 0168 A/	<u>0 016800</u>
3	Balance		1.016800
4	Uncollectible Ratio	0 0093 B/	<u>0 009456</u>
5	Balance		1 007344
6	State Excise Tax	0 0650 C/	<u>0 065477</u>
7	Balance		0 941866
8	Federal Income Tax	0 3500 C/	<u>0.329653</u>
9	Balance		<u>0 612213</u>
10	Revenue Conversion Factor (Line 1 / Line 11)		<u><u>1.633418</u></u>

A/ Company Exhibit 2, Sch 2 (\$534,685/\$31,840,192)

B/ Company Workpapers

C/ Statutory Rate

Tennessee-American Water  
Cost of Capital  
For the 12 Months Ending December 31, 2005

Line No	Parent.	Ratio	Cost	Weighted Cost	Tax Deductible
1	Short Term Debt	6 30%	2 40%	0 15%	0 12%
2	Long Term Debt	42 30%	6 00%	2 54%	2 05%
3	Preferred Equity	0 30%	5 00%	0 02%	
4	Common Equity	51 10%	9 90%	5 06%	
5	Total	<u>100 00%</u>		<u>7.77%</u>	
	Tennessee American	Ratio	Cost	Weighted Cost	
6	Short Term Debt	0 00%	0 00%	0 00%	
7	Long Term Debt	19 20%	7 71%	1 48%	1.48%
8	Common Equity	80 80%	7 77%	6 28%	
9	Total	<u>100 00%</u>		<u>7.76%</u>	<u>3.65%</u>
Final Capital Structure					
	Parent	Ratio	Cost	Weighted Cost	Tax Deductible
10	Short Term Debt	5 09%	2 40%	0 12%	0 12%
11	Long Term Debt	34 18%	6 00%	2 05%	2 05%
12	Preferred Equity	0 24%	5 00%	0 01%	
13	Common Equity	41 29%	9 90%	4 09%	
	Total Parent	<u>80.80%</u>	<u>7.76%</u>	6 27%	
	Tennessee American				
14	Short Term Debt	0 00%	0 00%	0 00%	0.00%
15	Long Term Debt	19 20%	7.71%	1 48%	1.48%
16	Total Subsidiary	<u>19.20%</u>	<u>7.71%</u>	<u>1 48%</u>	
17	Total	<u>100 00%</u>		<u>7.75%</u>	<u>3.65%</u>

Source Exhibit CAPD-SB, Schedules 37 and 38

**TENNESSEE AMERICAN WATER COMPANY**  
**Settlement Agreement Regarding Service Metrics and Reporting**  
**TRA Docket # 04-00288**  
**January 27, 2005**  
**SCHEDULE 10**

**Customer Service - Call Center:**

1. Begin Reporting Monthly Customer Care Scorecard (as identified in Mike Miller's Rebuttal Testimony) on a monthly basis and reporting to the Tennessee Regulatory Authority (TRA), the CAPD by March 1, 2005.
2. Develop similar Monthly Customer Care Scorecard with "Tennessee Specific" Statistics reporting by January 1, 2006 to TRA and CAPD. TAWC is not currently able to measure dropped calls from TN ratepayers, but will work with the Consumer Advocate toward establishing the necessary mechanisms to measure dropped calls, if practicable.

**Tennessee Local Operations:**

3. TAWC Employee Reporting by job title with its quarterly reporting to the TRA including allocated Tennessee specific Call Center employees.
4. Field Service (Tennessee Office) - Monthly Reporting To TRA and CAPD by March 1, 2005
  - A. Service Orders Worked - Monthly
  - B. Appointment Orders - % on-time
  - C. Appointments Missed
  - D. Meter Reading
    - a. Total meters
    - b. Meters read
    - c. Estimates
    - d. % Estimated
    - e. Number of Meters not billed 3 months, 6 months, 12 months

**Customer Surveys:**

5. Customer Survey Responses Reported To TRA and CAPD On A Quarterly Basis beginning 2005) detailed by affiliate:
  - A. Satisfaction in Reaching American Water Call Center
  - B. Satisfaction with Call Center Operation Problem Resolution
  - C. Satisfaction with company response for service
  - D. Satisfaction with water quality